

Before The
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

ANNUAL COMPLIANCE REVIEW, 2019

Docket No. ACR2019

**NOTICE OF THE UNITED STATES POSTAL SERVICE
OF REVISIONS TO CERTAIN PAGES OF THE FY 2019 ANNUAL
COMPLIANCE REPORT -- ERRATA**
(January 10, 2020)

The United States Postal Service hereby provides notice of revisions to five pages of the FY 2019 Annual Compliance Report, originally filed on December 27, 2019. The revised pages are attached. The primary purpose of this filing is to allow the necessary flow through of separately-filed revisions today in the FY 2019 ICRA (USPS-FY19-NP2) to be reflected in the ACR text. The relatively small ICRA changes primarily affect categories of International mail for which data are reported under seal (and thus do not appear in the text of the ACR itself), but also cause what are non-material changes in the public data relating to one Market Dominant product (Outbound Single-Piece First-Class Mail International) and to broader aggregate categories that do appear in various places. In the Public CRA, for example, there are exactly offsetting changes in costs of approximately \$346 thousand for total Market Dominant and total Competitive products.

Thus, Table 21 on page 63 of the ACR needs to be revised to reflect very minor changes in reported Total International Competitive and Total Competitive incremental costs. The rows in that table that have been revised are highlighted

in gray in the attached pages. The changes are so small that they do not affect the rounded values ultimately used for purposes of the cross-subsidy analysis on page 63 or the appropriate share analysis on pages 68-69. In contrast, in Table 1 on page 7, that same \$346 thousand cost shift ends up increasing the attributable costs at the product level for Outbound Single-Piece First-Class Mail International by that amount, and in the Table 1 row for that product, the effects of that (after rounding) cause a minimal increase in reported attributable costs, and also a slight uptick in cost coverage. Those changes are also highlighted in gray.

In addition to the changes on pages 7 and 63 emanating from the ICRA revision, the opportunity is taken to make other unrelated minor ACR corrections at this time as well. Also in Table 1 on page 7, the contribution amount in the row for Total First-Class Mail has been slightly revised, and a rounding error is corrected in the row for Single-Piece Letters/Cards. At two places on page 32, rounding has been changed to the nearest million. At the top of page 33, several percentage point change amounts and cost coverage amounts have been corrected. In footnote 36 on page 37, corrected citation pages are included. On these pages, each number that has been revised has been highlighted in gray. None of the number revisions is material, and no changes in corresponding text are required.

As indicated, attached to this Notice are copies of the above-identified five revised pages of the FY 2019 Annual Compliance Report.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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A. First-Class Mail**1. Cost, Revenues, and Volumes**

Costs, revenues, and volumes for First-Class Mail products appear in the table that follows.

Table 1: First-Class Mail Volume, Revenue, and Cost by Product

Product	Volume (million)	Revenue (\$million)	Attributable Cost (\$million) ^[1]	Contribution (\$million)	Revenue/ Piece (\$)	Cost/ Piece (\$)	Unit Contribution (\$)	Cost Coverage (%)
Single-Piece Letters/Cards	16,517	8,489	5,477	3,011	0.51	0.33	0.18	154.98
Presorted Letters/Cards	37,131	14,192	4,859	9,333	0.38	0.13	0.25	292.10
Flats	1,295	1,649	1,516	133	1.27	1.17	0.10	108.77
First-Class Mail Fees		105						
Total First-Class Domestic Mail (incl. fees)	54,943	24,434	12,090	12,345	0.44	0.22	0.22	202.11
Outbound Single-Piece First-Class Mail Int'l	126	184	127	58	1.46	1.00	0.46	145.66
Inbound Letter Post	560	598	762	(164)	1.07	1.36	(0.29)	78.49
Total First-Class Mail	55,630	25,217	12,978	12,239	0.45	0.23	0.22	194.30

[1] The total attributable cost for the class includes inframarginal cost, so the sum of the individual products' attributable costs will not equal the total attributable cost of the class.

With the exception of Inbound Letter Post, all First-Class Mail products covered their attributable costs in FY 2019, with most of them contributing significantly to institutional costs. First-Class Mail cost coverage fell from 205 percent in FY 2018 to 194 percent in FY 2019. Total contribution fell from \$13.1 billion in FY 2018 to \$12.2 billion in FY 2019. Although First-Class Mail volume continued to decline, falling 2.9 percent in FY 2019, the decline slowed as compared to FY 2018, when it dropped 3.8 percent.

Inbound Letter Post did not cover its attributable costs in FY 2019 (absent consideration of additional revenue flows related to Inbound Letter Post, as noted below). As has been noted in past ACRs, the product's financial performance stems from its unique pricing regime. During FY 2019, the Postal Service did not

D. Package Services**1. Cost, Revenues, and Volumes**

Costs, revenues, and volumes for Package Services products appear below.

Table 12: Package Services Volume, Revenue, and Cost by Product

Product	Volume (Million)	Revenue (\$Million)	Attributable Costs (\$Million) ^[1]	Contribution (\$Million)	Revenue / Piece (\$)	Cost / Piece (\$)	Unit Contribution (\$)	Cost Coverage (%)
Bound Printed Matter Flats	254	190	133	58	0.75	0.52	0.23	143.4
Bound Printed Matter Parcels	286	314	297	17	1.10	1.04	0.06	105.9
Media Mail/ Library Mail	80	284	397	(113)	3.54	4.96	(1.41)	71.5
Alaska Bypass	1	32	20	11	24.91	15.98	8.93	155.8
Fees		1						
Total Package Services (incl. fees)	622	821	848	(26)	1.32	1.36	(0.04)	96.9

[1] The total attributable cost for the class includes inframarginal cost, so the sum of the individual products' attributable costs will not equal the total attributable cost of the class.

Overall, the Package Services class had a cost coverage of 96.9 percent, decreasing from 102.8 percent in FY 2018.²⁶ This decrease was driven in large part by the 5.2 percentage point drop in Media Mail/Library Mail cost coverage. This resulted in Media Mail/Library Mail's shortfall increasing by \$29 million from its FY 2018 level, more than the class's overall \$26 million shortfall (Media Mail/Library Mail's total shortfall in FY 2019 was \$113 million). The Docket No. R2020-1 price increase for the product is 1.993 percent, above the average for the class. The Postal Service intends to recommend to the Governors that they continue applying above-average price increases to improve Media Mail/Library Mail cost coverage.

All other Package Services products covered their costs in FY 2019, although their cost coverages decreased. Specifically, cost coverage for Bound Printed Matter

²⁶ FY 2018 cost coverage from Appendix A to Financial Analysis of United States Postal Service Financial Results and 10-K Statement.

(BPM) Parcels decreased by 2.9 percentage points to 105.9 percent; cost coverage for BPM Flats decreased by 5.2 percentage points to 143.4 percent; and cost coverage for Alaska Bypass decreased by 20.0 percentage points to 155.8 percent.

2. Workshare Discounts and Passthroughs

All Package Services passthroughs were under 100 percent in FY 2019.

E. Special Services

1. Cost, Revenues, and Volumes

Costs, revenues, and volumes for Special Services appear in the table that follows.

Table 13: Special Services Volume, Revenue, and Cost by Service/Product

Service/Product	Volume (Million)	Revenue (\$Million)	Attributable Cost (\$Million) ^[1]	Contribution (\$Million)	Revenue /Piece (\$)	Cost/ Piece (\$)	Unit Contribution (\$)	Cost Coverage (%)
Certified Mail	187.0	653.6	478.4	175.2	3.50	2.56	0.94	136.62
COD	0.4	4.2	2.5	1.7	11.43	6.83	4.60	167.28
Insurance	14.3	77.7	41.5	36.2	5.41	2.89	2.52	187.35
Registered Mail	1.4	24.2	16.8	7.4	16.72	11.59	5.14	144.32
Stamped Envelopes	N/A	12.2	10.6	1.6	N/A	N/A	N/A	114.90
Stamped Cards	N/A	0.6	0.2	0.4	N/A	N/A	N/A	316.26
Other Ancillary Services	N/A	393.0	250.5	142.5	N/A	N/A	N/A	156.91
Total Ancillary Services	N/A	1165.5	800.4	365.0	N/A	N/A	N/A	145.61
Int'l Ancillary Services	29.7	59.1	58.5	0.5	1.99	1.97	0.02	100.93
Caller Service	N/A	89.4	21.1	68.2	N/A	N/A	N/A	423.29
Address Management Services	N/A	16.7	5.6	11.1	N/A	N/A	N/A	299.11
Credit Card Authentication ^[2]	18.3	18.3	2.2	16.2	1.00	0.12	0.88	844.33
Customized Postage	0.0	0.2	0.1	0.2	N/A	N/A	N/A	383.25
Money Orders	81.3	162.9	154.5	8.4	2.00	1.90	0.10	105.45
Post Office Box Service	N/A	294.4	255.5	38.9	N/A	N/A	N/A	115.23
Stamp Fulfillment Services	N/A	4.1	4.3	(0.2)	N/A	N/A	N/A	94.53
Total Special Services Mail	N/A	1810.5	1322.7	487.9	N/A	N/A	N/A	136.89

[1] The total attributable cost for the class includes inframarginal cost, so the sum of the individual products' attributable costs will not equal the total attributable cost of the class.

[2] See USPS-FY19-4 for volume, and USPS-FY19-NP26 for revenue adjustments after revenue-sharing with third-party partners.

III. SERVICE PERFORMANCE, CUSTOMER SATISFACTION, AND CONSUMER ACCESS

A. Service Performance

During FY 2010, the Commission issued its final rules on periodic reporting of service performance measurement and customer satisfaction, which are codified at 39 C.F.R. part 3055.³⁴ Among other things, Commission Rules 3055.20 through 3055.24 require annual reporting of service performance achievements at the national level for all market dominant products.³⁵ The Postal Service's report, including information responsive to the criteria listed in Rule 3055.2(b)-(k), is included in USPS-FY19-29.³⁶

³⁴ Order No. 465, Order Establishing Final Rules Concerning Periodic Reporting of Service Performance Measurements and Customer Satisfaction, Docket No. RM2009-11 (May 25, 2010).

³⁵ Reporting, however, is not required where the Commission has granted a semi-permanent exception or a temporary waiver. *Id.* at 21-23.

³⁶ Besides the data provided in USPS-FY19-29 as required by Part 3055, the Annual Report on Service Performance for Market Dominant Products within USPS-FY19-29 includes plans for improving the performance of specific products. Plans for improvement are provided not only pursuant to the Commission's rules, 39 C.F.R. § 3055.2(h), but also the FY 2018 Annual Compliance Determination Report (ACD). See, e.g., FY 2018 ACD, at 87 (Inbound Letter Post), 174-76 (First-Class Mail), 184 (Marketing Mail), 186 (Periodicals), 189 (Package Services), 193 (P.O. Box Service). In addition to that report on service performance, USPS-FY19-29 also includes a report on methodologies for service performance measurement, in compliance with PRC Order No. 3490, Order Enhancing Service Performance Reporting Requirements and Closing Docket, Docket No. PI2016-1 (Aug. 26, 2016). USPS-FY19-29 additionally includes certain data on First-Class Mail as requested in the Commission's FY 2018 ACD (at 174-76) and also certain data on root cause impacts for Marketing Mail as requested in the FY 2018 ACD (at 184) (note that such data are not available at the product level). The non-public portions of those data on First-Class Mail in response to the FY 2018 ACD (at 174-76) are submitted within USPS-FY19-NP30. USPS-FY19-29 includes the updated seven Area-specific reports regarding First-Class Mail service performance as directed in FY 2018 ACD (at 174). USPS-FY19-29 also includes the Special Study on delivery performance to certain remote geographic areas, as required every two years pursuant to 39 C.F.R. § 3055.7. Information pertaining to service performance for flat-shaped mail as required by 39 C.F.R. § 3050.50(c) appears in USPS-FY19-29 and also in USPS-FY19-45, so that it is submitted together with other information required by 39 C.F.R. § 3050.50. Finally, USPS-FY19-NP30 includes third-party provided information upon which service performance penalties or bonuses are determined (including estimated forfeited revenues), including for international inbound letter post, parcel post, and EMS, as required by the FY 2018 ACD (at 87), by 39 C.F.R. § 3050.21(j), and by PRC Order No. 5212 at 5 (Aug. 28, 2019). For inbound letter post, this information in USPS-FY19-NP30 also includes aggregations of weekly failure reports and an analysis of the failures as required by FY 2018 ACD (at 87).

competitive products.⁴¹ Under this test, if the aggregate revenues from competitive products equal or exceed the aggregate incremental costs of competitive products, then competitive products overall have not been cross-subsidized by market dominant products. As it did last year, the Postal Service this year is relying on a single direct estimate of the group incremental costs of all competitive products, domestic and international, using the procedure approved in Docket No. RM2018-6 in Order No. 4719 (July 19, 2018).

The group incremental cost estimate for domestic competitive products, the group incremental cost estimate for international competitive products, and the group incremental cost estimate for the group of all competitive products—fully documented in USPS-FY19-NP10—are presented below. Note that the estimate for all competitive products is calculated separately from those for domestic and international, and thus is not merely the sum of those two estimates.

Table 21: FY 2019 Incremental Cost Calculation for Total Competitive Products

	Volume Variable & Product Specific Cost	Group Specific	Group Inframarginal	Group Incremental
Total Domestic Competitive Incremental	\$ 14,530,832	\$ 19,448	\$ 400,762	\$ 14,951,042
Total International Competitive Incremental	\$ 980,591		\$ 436	\$ 981,027
Total Competitive	\$ 15,511,423	19,448	\$ 429,151	\$ 15,960,022

[1] The Group Inframarginal for Total Competitive are estimated separately, and they (and thus the Total Competitive Incremental) are not the sum of the previous two rows. Costs are in \$(000).

The total competitive group incremental cost of \$15.960 billion is well below total competitive products revenue of \$24.207 billion (shown on page 3 of USPS-FY19-1). Therefore, based on these estimates, it is clear that competitive products in FY 2019

⁴¹ See 39 C.F.R. § 3015.7(a).